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ART ECONOMICS: A NEW PERSPECTIVE

Part I

This part shows a picture of the state of the art economics. First, the situation in the Netherlands is described thematically. The most important issue in the seventies and eighties was trying to find an economic rationale for the government support of the arts. The rising government expenditures on the arts motivated economists in trying to prove how arts contribute to social welfare. Both the Neo-Classical and the Keynesian approach is used for this purpose. The well-known market-failure grounds for government intervention are applied to the arts. Indeed, the arts have some **public good** characteristics but essentially they remain a private good that can be allocated through the market. Furthermore the arts certainly give rise to **external benefits** in production and consumption but there is no evidence that subsidies can provide social benefits that outweigh alternative means. In **a dynamic way** it cannot be denied that the arts will get improved market conditions due to the rising standard of living and education but it is not sure if and when that will lead to increasing demand. Only the normative **merit good** argument according to which it is the opinion of the government that citizens underestimate the value of a certain good, can be applied to the arts without reluctance. After all it must be concluded that the neoclassical theory cannot deliver hard evidence that subsidies for the arts contribute to social welfare.

As a result economic attention switched to the demand side which generated several 'impact studies'. Initially the message was very promising: production and consumption of arts leads to multiple expenditures in society and can be considered as an economic dynamo. However, after critical analysis it had to be admitted that these induced expenditures, like going to a restaurant before a concert, cannot be assigned exclusively to the arts. As a matter of fact it's not unlikely that instead of buying a ticket for the concert hall, people will spend the money on a more expensive dinner.

In 1995 Arjo Klamer was appointed as the first professor of art economics in Rotterdam.

From the start he emphasized that in his view economics is not able to express the real value of the arts. He argued that a more philosophic approach is needed to include metaphysical aspects of arts consumption. Nevertheless there has been no significant elaboration of this interesting viewpoint in ten years. A much more concrete contribution to the development of art economics was provided by Abbing, Langenberg and Rengers. Around the turn of the century each of them produced a dissertation that discarded the economic legitimacy of art subsidies. The new scope was the labour market for the arts. Abbing and Rengers focused the creative arts and stated that they are characterized by a chronic excess supply of labour. Abbing stressed the consequences for the income situation and called it the answer to the question 'why are artists poor?'. Rengers was more interested how this excess supply of labour is financed. In line with some foreign studies he concluded that multiple job-holding and partner contributions are responsible for art supply without market demand. Another conclusion of his statistical research was that government policy

aiming to increase an artist's income, leads to decreasing marginal production. Despite Rengers view Langenberg made a plea for good Collective Labour Agreements for performing artists in order to guarantee a fair level of income.

In the rest of the world the same characteristics can be recognized in the development of art economics but the research area is more expanded. There have also been efforts to produce something substantial such as state-of-the-arts or at the least surveys of this discipline. In 1994 David Throsby, chairman of the International Association of Cultural Economics, wrote a highly respected 'state-of-the-art'-article in the Journal of Economic Literature. He stated that in the light of the wide range of work in applying economics to problems in the arts, apologies for presuming that economics might have anything useful to say about art should be made no longer. Economics have proved to be a useful instrument for understanding specific problems in the arts. He foresees three lines of future development in cultural economics. First there are numerous theoretical and empirical problems to be explored in this area. Second, an essential element in future work will be the provision of better data; if not, the work of cultural economists will not be taken seriously by other researchers and policymakers. Finally the arts do challenge tradition-bound economists to focus on a wider horizon because the very scope of the subject area makes a natural connection with philosophy, politics and other disciplines. Throsby himself chose the last option: in his latest book **Economics and Culture** he explores, following Arjo Klamer, the metaphysical values of the arts without a clear view of where that will bring us. In 2001 Mark Blaug presented a survey of the progress in cultural economics in the Journal of Economic Surveys. Blaug is more pessimistic because cultural economics lacks a single dominant paradigm or overarching intellectual theme that binds all its elements together. The cost disease theory with which Baumol and Bowen in 1966 gave birth to cultural economics, is not exclusive to the arts but to all labour-intensive processes. Furthermore the cost disease is not the only explanation for the rising costs in performing arts over the last decades. In the end Blaug concludes that while art is a rich area for the application of economic theory, the hope that art economics might would imply and promote developments that would spill over to benefit economics, has not transpired.

As an editor of several handbooks of cultural economics Ruth Towse has the same opinion about the lacking of a central theme that can give cultural economics its own identity. In 2003, in the foreword to **A Handbook of Cultural Economics**, she declared her high expectations for the philosophical way that is propagated by Klamer and Throsby. Since Klamer called out in 1996 that a more philosophical approach could be a most promising escape for cultural economics, he received support from Throsby and Towse but there is not any theoretical progress noticed. On the basis of this survey one can say that art economics as a part of cultural economics have reached a deadlock. The main reason seems to be the lack of a widely accepted core problem. Economics as a whole derive the right to exist from scarcity which is defined as the tension between human needs and scarce means. Human needs are generally conceived as consumption needs. In the arts, however, there is not the usual scarcity because of the chronic excess supply of artist labour. Each market demand is and can be absorbed on reasonable terms by this army

of artists. Despite the poor income situation these artists have no intention of making other career choices. This causes an exceptional situation in the perception of economists who traditionally work with the hypothesis of consumer demand that drives the allocation of scarce resources. In the arts the contrary seems to happen; there is an excess supply and economists desperately try to prove that somewhere in society a non-market demand exists which legitimates government subsidies to maintain the supply. Because economists have failed to prove the existence of this non-market demand using the neoclassical theory, Klammer and his followers hope to find the solution in upgrading the value of arts. It is not only the economic value that is reflected in the market price, but also the human value that is created by the arts, that really matters for society. Until now this human value cannot be transformed in operational economic terms so the deadlock remains. The real solution comes from a change of viewpoint: not the need for arts consumption gives direction to the allocation of labour but the need for arts production. All research shows that artists do not supply their labor for maximizing their income, as most artists are poor according to Abbing. These bad incomes are no reason to look for more promising parts of the labour market seriously. Artists take other jobs to keep themselves alive and be able to sustain their main occupation as an artist. Thus the scarcity in the arts is not the traditional tension between limited consumption goods and infinite human needs. The arts are determined by infinite needs for production versus limited possibilities to produce.

The economic condition that people pay in order to satisfy their needs, is evident by the data regarding the low income of the average artist. This means that artists are willing to pay for this production need.

Part II

This new theoretical concept is tested on the cultural policy of the central government in the Netherlands. Since World War II the Dutch government is structurally concerned with the arts and the first twenty years can be considered as 'the building-up period'. Government expenditures for the arts rose from 0,05 percent of total government expenditures in 1946 to 0,19 percent in 1965. There was a general agreement in parliament how these public funds must be applied and an Advisory Board for the Arts was set up to involve experts and create support. In the sixties an adequate level of arts supply, well distributed over the country, is reached but the participation diminished.

Also the policy objective to involve more people with lower income and education to subsidized arts failed. This caused more attention for policy considerations in a way that the next two decades can be described as 'the policy years'. The highlights were in the seventies with the publication of a Memorandum for Discussion of Arts Policy in 1972, and in 1976 with the Memorandum for Arts and Arts Policy. The main concern of the two papers was on the one hand government responsibility for an adequate level of arts supply and on the other hand the political ambition that the arts should play a serious role in social life. In the eyes of government officials arts should be part of welfare policy.

Precisely during this period art itself developed in another direction: experiment and innovation were the keywords that marginalized the arts from the larger population. As a result statistical figures of visitors to the performing arts show all-time lows in the eighties while government policy was aiming at an increase. To get firmer grip on this field government created a special planning instrument for arts policy that has dominated the last twenty years. This can be called 'the planning period'. This planning system is rooted in a law for specific cultural policy that forces each new cabinet to determine a plan which will shape arts policy for the next four year term. In 2005 the fifth arts plan has come into force and Part III will examine the special features of this system. Looking at the effects of arts policy over the last sixty years the following observations can be made. The first and maybe most important thing to notice, is the government's preference for arts in the annual budget process. From 0,05 percent of total government expenditures in 1946, via 0,19 percent in 1965 and 0,23 percent in 1985, government spends 0,29 percent of its total budget in 2005 to the arts. Apart from side issues government has had two main objectives over these years: to create an art supply of the highest possible quality and to stimulate as many people as possible take an interest in the arts. The first objective can't be measured because the Dutch government has declared itself unable to define quality in art. That makes this policy arbitrary and out of control. The other objective of increasing participation for subsidized arts has simply not succeeded.

The amount of visitors to the subsidized performing arts was decreasing from 1946 till 1985 to show a slight recovery after: in 2002 only the same level of visitors was reached as in 1975. In relation to the growth of the population and the enormous increase of performances the conclusion must be drawn that participation policy has been ineffective.

It is a remarkable phenomenon that government expenditures on the arts have increased while government policy is irrational regarding its aim of creating high quality art and ineffective on the field of participation policy. Traditional economic theory is not able to give an explanation for this increasing government support for the arts because there is no excess demand from society nor a quality problem. An explanation can be found in the new hypothesis of the need for arts production facilities. It is this need that drives artists to pressure government to enlarge the arts budget.

Part III

It would appear that each amount the government spends on the arts, is legitimate from the point of view that it will finance arts production facilities. The following condition must be stipulated: government money for the arts should not slip away into bureaucratic waste.

Part III will therefore focus on examining the typical Dutch operating system. This system is characterized by two elements. Firstly, government has declared itself not qualified to make artistic choices. This judgment is delegated to the Council for Culture while the Minister of Culture retains the responsibility for the choices. In the second place government has established its policy for the arts in four-year planning cycles. These qualities give the Dutch art policy a unique operating system.

In the United Kingdom the whole administration of arts policy including the selection on artistic grounds, is privatized in the Arts Council. In other European countries the governments themselves decide where to put the money without any artistic by-pass. In both cases the budget decisions are made on a yearly basis.

The Dutch system is examined on its degree of efficiency. A qualitative approach shows that the planning system causes several forms of inflation. The necessity to elaborate a new plan with new policy aims once in every four years leads to policy inflation. Each new plan produces more abstract and fine-sounding objectives which only seem to have a ceremonial function. Another product of the planning system is process inflation which means that every new four-year period the integral planning process gets more complicated because of the department's perfectionism. However, the most important effect of the planning system is the great attraction for artists and art companies to ask for subsidy. The number of institutions that are subsidized on behalf of the art plan has doubled from 168 in 1992 to 333 in 2001 and the requests for subsidy in 2004 amounted to 633. The main reason for this explosion seems to be the accessibility of the system. It gives a lot of interested parties the illusion that subsidy is within their reach. A growing number of refused requests are turning to litigation procedures in order to receive the subsidy. This juridification means a heavy burden on government administration. All these tendencies seem to point at an inevitable collapse of the planning system.

The by-pass construction with the Council of Culture is another cost-raising factor. There are not only the direct costs for advices on how to divide the government's arts budget, but also the casualness of artistic judgment in the Netherlands which is made by anonymous committees with constant staff changes that increase inefficiency. That is why Dutch arts councils with the main task to allocate government money to individual artists perform much more inefficiently than their private colleagues. Part of this study was a poll exploring a hundred art managers with a workable response rate of 40 percent. Some note-worthy results are:

- there is no convincing support among art managers for the planning system;
- the Council of Culture has no high standing with art managers and seems to have been assigned a mission impossible;
- art managers distrust government and have no confidence in the expertise of civil servants;
- a rough estimation of the costs of the planning system within the art companies can be made which results in more than € 10 mln. every four years at least.

The last datum combined with the results of other calculations gives an indication of the efficiency of the Dutch system. It turns out that this unique operating system is more expensive than the other systems; the price we pay for this system is € 6,2 mln. on a structural basis and € 15 mln. every four years at least.

To sum up, it can be stated that Dutch art policy is irrational and ineffective and the unique Dutch art operating system is inefficient as well. Therefore the most valuable recommendation from the new art economics must be to end the planning system and to close the artistic by-pass. According to results of the poll the British Arts Councilmodel seems to be the best alternative.